

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

STATE-FUNDED JUDICIAL OPERATIONS

October 1, 1996 through September 30, 1998

EXECUTIVE DIGEST

STATE-FUNDED JUDICIAL OPERATIONS

INTRODUCTION

This report contains the results of our financial audit* , including the provisions of the Single Audit Act, of the State-Funded Judicial Operations for the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This financial audit of the State-funded judicial operations was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

The judicial system consists of three levels of courts and other judicial agencies. The courts include the Supreme Court, the Court of Appeals, and State trial courts. Trial courts consist of circuit, district, and probate courts. The Court of Claims resides in the 30th Circuit Court (Ingham County) and has jurisdiction limited to hearing claims against the State of Michigan. Other judicial agencies include the State Court Administrative Office, State Appellate Defender Office, Michigan Appellate Assigned Counsel System, Michigan Judicial Institute, and Judicial Tenure Commission.

* See glossary at end of report for definition.

The finance department of the Supreme Court maintains the accounting records for all revenue and expenditures involving State funds, including federal grant money. Various courts and other judicial agencies are federal grant recipients, and they administer the federal grant programs.

Revenue and expenditures and operating transfers out for the State-funded judicial operations for the fiscal year ended September 30, 1998 were:

Revenue	\$ 56,010,213
Expenditures and operating transfers out	\$204,599,850

State general purpose revenue provides the primary funding for expenditures in excess of revenue collections.

As of September 30, 1998, the State-funded judicial operations had 1,046 employees, which included all judges, except probate judges, for the various trial and appellate courts.

Act 374, P.A. 1996, significantly changed the organization and funding of the State's courts. The Act changed the State Court Fund funding formula and created the Court Equity Fund to provide funding to counties for trial courts. The Act also created a Hold Harmless Fund to provide supplemental support for certain counties and cities.

In addition, the Act abolished the Detroit Recorder's Court and merged it with the 3rd Circuit Court, requiring Wayne County to operate and maintain the court. The Act also eliminated certain State and City of Detroit funding and revenue collection obligations related to the 36th District Court. As a result, the operation and maintenance of that Court became the responsibility of the City of Detroit.

Further, the Act revised the method of determining judges' salaries and provided for 100% State funding of those salaries.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit the State-funded judicial operations' financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

Conclusion: We expressed an unqualified opinion on the State-funded judicial operations' financial schedules.

Audit Objective: To assess and report on the State-funded judicial operations' compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance disclosed an instance of noncompliance related to indirect costs* that is required to be reported under *Government Auditing Standards* (Finding 2). However, our assessment of internal control over financial reporting did not disclose any material weaknesses* . We did identify reportable conditions* related to liabilities and cash management (Findings 1 and 3).

Audit Objective: To assess and report on the State-funded judicial operations' compliance with requirements applicable to each major federal program and on

* See glossary at end of report for definition.

internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to payroll certifications, allowed activities, and grant payments that are required to be reported under OMB Circular A-133 (Findings 4 through 6). Our auditor's report on compliance is unqualified for all major programs except for Temporary Assistance for Needy Families and the State Court Improvement Program, which are adverse. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the State-funded judicial operations for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our audit report contains 6 findings and 7 corresponding recommendations. The State-funded judicial operations' corrective action plan indicates that the Judiciary agrees with the recommendations and has implemented or plans to implement all of them.

As disclosed in the State-funded judicial operations' summary schedule of prior audit findings, the Judiciary complied with all 4 of the prior Single Audit* recommendations that were included within the scope of our current audit.

* See glossary at end of report for definition.

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The Honorable Elizabeth A. Weaver
Chief Justice of the Supreme Court of Michigan
G. Mennen Williams Building
Lansing, Michigan

Dear Chief Justice Weaver:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the State-Funded Judicial Operations for the period October 1, 1996 through September 30, 1998.

This report contains our executive digest; description of entity; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the State-funded judicial operations' financial schedules and notes to the financial schedules, required supplementary information, supplemental financial schedules, other required schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary responses are contained in the corrective action plan and follow each recommendation.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Entity

The judicial branch of government within the State of Michigan is provided for by Article 6 of the State Constitution. The judicial system consists of three levels of courts and other judicial agencies. The courts include the Supreme Court, the Court of Appeals, and State trial courts. Trial courts consist of circuit, district, and probate courts. The Court of Claims resides in the 30th Circuit Court (Ingham County) and has jurisdiction limited to hearing claims against the State of Michigan. Each of the different courts performs a certain role within the judicial branch according to the jurisdiction given to it by the State Constitution and by statute.

Act 374, P.A. 1996, significantly changed the organization and funding of the State's courts. Major portions of the Act were effective on October 1, 1996. The Act changed the State Court Fund funding formula and created the Court Equity Fund to provide funding to counties for trial courts. The Act also created a Hold Harmless Fund to provide supplemental support for certain counties and cities. In addition, the Act abolished the Detroit Recorder's Court and merged its functions with the 3rd Circuit Court, requiring Wayne County to operate and maintain the court. The Act also eliminated certain State and City of Detroit funding and revenue collection obligations related to the 36th District Court. As a result, the operation and maintenance of that Court became the responsibility of the City of Detroit. Further, the Act revised the method of determining judges' salaries and provided for 100% State funding of those salaries.

For this report, the audit entity represents the portion of the judicial branch financial transactions that is funded by State appropriations and is accounted for in the State's accounting system. The schedule of sources and dispositions of General Fund authorizations by appropriation unit provides more detail regarding the courts and judicial agencies included in the audit entity. State appropriations are used to pay all or a portion of the salaries of the judges in each court throughout the State.

Revenue and expenditures and operating transfers out for the State-funded judicial operations for the fiscal year ended September 30, 1998 were:

Revenue	\$ 56,010,213
Expenditures and operating transfers out	\$204,599,850

State general purpose revenue provides the primary funding for expenditures in excess of revenue collections.

As of September 30, 1998, the State-funded judicial operations had 1,046 employees, which included all judges, except probate judges, for the various trial and appellate courts.

COURTS

Supreme Court

The Supreme Court is the highest court in the State. The Supreme Court hears cases on appeal from other State courts and has original jurisdiction over certain matters. The Supreme Court is also responsible for the general administrative supervision of and the establishment of rules for practice and procedure in all courts in the State. The Supreme Court consists of seven justices and an administrative staff. The Supreme Court operations are funded by State appropriations. The finance department of the Supreme Court maintains the accounting records for all revenue and expenditures involving State funds, including federal grant money. Various courts and other judicial agencies are the federal grant recipients, and they administer the federal grant programs.

Court of Appeals

The Court of Appeals is the second highest court in the State, hearing cases on appeal from lower courts. Panels consisting of three judges each hear cases in Lansing, Detroit, Grand Rapids, and Marquette. As of September 30, 1998, the Court of Appeals had 28 judges and its operations were funded by State appropriations.

Circuit Court

Circuit courts are referred to as the trial courts of general jurisdiction because of their broad powers. Generally, circuit courts have original jurisdiction in all civil cases

involving more than \$25,000; in all felony criminal cases; and in domestic relations cases, such as divorce and paternity actions. The Friend of the Court is a component of each circuit court and facilitates court orders related to divorce and paternity actions. Circuit courts are responsible for hearing cases in one or more counties. Circuit courts receive State-appropriated funding for judges' salaries, and the counties provide funding for other operating costs. As of September 30, 1998, there were 57 circuit courts with a total of 210 judges.

Court of Claims

The Court of Claims resides in the 30th Circuit Court (Ingham County) and has jurisdiction limited to hearing claims against the State of Michigan. The Court of Claims receives State-appropriated funding for judges' salaries and operational costs.

District Court

District courts have jurisdiction over all civil litigations up to \$25,000 and also handle garnishments, eviction proceedings, land contracts, and mortgage foreclosures. In addition, district courts handle preliminary examinations in felony cases and handle all misdemeanors in which punishment does not exceed one year in jail. District courts include small claims divisions and make use of magistrates. District courts cover areas defined by statute, which include cities, townships, and other municipalities. District courts receive State-appropriated funding for judges' salaries. The local government units provide funding for other operating costs. As of September 30, 1998, there were 101 district courts with a total of 259 judges.

Probate Court

Probate courts exercise exclusive jurisdiction in such matters as juvenile proceedings and adoptions and supervise the probating of wills and the administration of estates and trusts. Also, probate courts hear cases pertaining to guardianships and conservatorships for minors and adults. Probate courts have juvenile divisions which handle cases of delinquent, neglected, or abused children. Probate courts are responsible for hearing cases in one or more counties. Probate courts receive State-appropriated funding for judges' salaries, and the counties provide funding for other operating costs. As of September 30, 1998, there were 78 probate courts and 106 judges.

OTHER JUDICIAL AGENCIES

These judicial agencies are funded with State appropriations:

State Court Administrative Office - This Office supervises and examines the administration of the courts, monitors court calendars, prepares State funding budget requests, and collects and compiles statistical and other court-related data.

State Appellate Defender Office - This Office, which is governed by the State Appellate Defender Commission, provides legal counsel for indigent defendant appellate cases.

Michigan Appellate Assigned Counsel System - This System, which is governed by the State Appellate Defender Commission, administers a Statewide roster of attorneys who are eligible and willing to accept criminal appellate defense assignments for indigent defendants and provides continuing legal education for those attorneys.

Michigan Judicial Institute - This Institute is responsible for the continuing legal education of all Michigan judges and court-related personnel.

Judicial Tenure Commission - This Commission investigates complaints against judges and may recommend disciplinary action to the Supreme Court.

Audit Objectives and Conclusions, Audit Scope,
and Agency Responses and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the State-Funded Judicial Operations had the following objectives:

1. To audit the State-funded judicial operations' financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

We expressed an unqualified opinion on the State-funded judicial operations' financial schedules.

2. To assess and report on the State-funded judicial operations' compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on internal control over financial reporting, based on our audit of the financial schedules.

Our assessment of compliance disclosed an instance of noncompliance related to indirect costs that is required to be reported under *Government Auditing Standards* (Finding 2). However, our assessment of internal control over financial reporting did not disclose any material weaknesses. We did identify reportable conditions related to liabilities and cash management (Findings 1 and 3).

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs* .

3. To assess and report on the State-funded judicial operations' compliance with requirements applicable to each major federal program and on internal control over

* See glossary at end of report for definition.

compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to payroll certifications, allowed activities, and grant payments that are required to be reported under OMB Circular A-133 (Findings 4 through 6). Our auditor's report on compliance is unqualified for all major programs except for Temporary Assistance for Needy Families and the State Court Improvement Program, which are adverse. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

Audit Scope

Our audit scope was to examine the financial and other records of the State-funded judicial operations for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered the State-funded judicial operations' internal control over compliance applicable to each federal major program and assessed the State-funded judicial operations' compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the State-funded judicial operations' summary schedule of prior audit findings. The State-funded judicial operations' major federal programs are identified in Section I of the schedule of findings and questioned costs.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 6 findings and 7 corresponding recommendations. The State-funded judicial operations' corrective action plan indicates that the Judiciary agrees with the recommendations and has implemented or plans to implement all of them.

The State-funded judicial operations' corrective action plan, which is included in this report, was prepared by the Judiciary as required by OMB Circular A-133.

As disclosed in the State-funded judicial operations' summary schedule of prior audit findings, the Judiciary complied with all 4 of the prior Single Audit recommendations that were included within the scope of our current audit.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified
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Internal control over financial reporting:

Material weaknesses identified?	No
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Reportable conditions identified that are not considered to be material weaknesses?	Yes
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Noncompliance material to the financial schedules?	No
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Federal Awards

Internal control over major programs:

Material weaknesses identified?	No
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Reportable conditions identified that are not considered to be material weaknesses?	Yes
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Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except for Temporary Assistance for Needy Families and the State Court Improvement Program, which are adverse.

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.586	State Court Improvement Program

Dollar threshold used to distinguish type A and type B programs: \$300,000

Auditee qualified as low-risk auditee* ? No

Section II: Findings Related to the Financial Schedules

FINDING (059901)

1. Liabilities

The Judiciary's liabilities were overstated for fiscal years 1997-98 and 1996-97.

During those fiscal years, employee contributions for medical insurance premiums were accumulated in a liability account entitled "amounts held for others." The amount of the contributions should be removed from the liability account by the end of each fiscal year. However, the Judiciary did not start removing the amount of the contributions until fiscal year 1997-98. As a result, the liability account had the same balance of \$581,238 at the end of fiscal years 1997-98 and 1996-97. Although liabilities were overstated, this did not have a material effect on the Judiciary's revenue and expenditures.

RECOMMENDATION

We recommend that the Judiciary correct its liabilities.

* See glossary at end of report for definition.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the recommendation and informed us that the necessary accounting entries have been made to correct the overstatement of liabilities.

FINDING (059902)

2. Indirect Costs

The Judiciary did not charge indirect costs to the Temporary Assistance for Needy Families (TANF) and State Court Improvement Program (SCIP) federal grants as required by State law.

Section 18.1460 of the *Michigan Compiled Laws* requires State agencies to determine what the indirect cost rate is for the agency and to charge the applicable indirect costs to federal grants.

We estimated that the amount of indirect costs that could have been charged to the TANF and SCIP federal grants for fiscal years 1997-98 and 1996-97 was approximately \$22,600.

RECOMMENDATION

We recommend that the Judiciary charge indirect costs to the TANF and SCIP federal grants as required by State law.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the recommendation and informed us that its proposal to complete an indirect cost plan has been included in the State's contract for developing indirect cost plans.

FINDING (059903)

3. Cash Management

The Judiciary did not obtain timely reimbursement of federal program expenditures paid with General Fund money.

The Judiciary did not obtain reimbursement for SCIP federal grant expenditures for fiscal year 1997-98 of \$386,125 and fiscal year 1996-97 of \$108,859 until March 13, 1999 and February 13, 1998, respectively. The Judiciary informed us that the delays were because of the difficulties in getting the software from the U.S. Department of Health and Human Services to work on the computers and the problems in getting through on its payment request phone lines.

As a result of not obtaining timely reimbursement, we estimated, based on the State Treasurer's Common Cash rate, lost interest income to the State of approximately \$19,500. If the Judiciary cannot obtain reimbursement on a timely basis, it should request payment advances to prevent lost interest income.

RECOMMENDATION

We recommend that the Judiciary obtain timely reimbursement of federal program expenditures paid with General Fund money.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the recommendation and informed us that it will continue efforts to obtain timely reimbursement.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (059904)

4. Payroll Certifications

U.S. Department of Health and Human Services	CFDA: 93.558 Temporary Assistance for Needy Families
Award Number: I.A. 00-002	Award Period: 1/1/98 - indefinite
Pass-Through From Family Independence Agency	Questioned Costs: \$138,265

U.S. Department of Health and Human Services	CFDA: 93.586 State Court Improvement Program
Award Number: G9701MISCIP	Award Period: 1/10/97 - 1/9/99
	Questioned Costs: \$28,489

The Judiciary did not prepare certifications for the employees who worked solely on the TANF and SCIP federal grants in fiscal year 1997-98 in accordance with federal requirements.

OMB Circular A-87, effective September 1, 1995, requires that payroll charges for an employee who worked solely on a single federal grant be supported by at least a semi-annual certification that the employee worked solely on that program. The certifications should be signed by the employee or the supervisor having first-hand knowledge of the work performed by the employee.

This noncompliance with OMB Circular A-87 could result in disallowed costs of \$138,265 and \$28,489 for fiscal year 1997-98 for TANF and SCIP, respectively. The TANF amount is included in the amount of questioned costs in Finding 5.

RECOMMENDATION

We recommend that the Judiciary prepare certifications for employees who work solely on the TANF and SCIP federal grants in accordance with federal requirements.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the recommendation and informed us that it has prepared certifications for the time period in question. It also informed us that it is now preparing certifications on a six-month basis.

FINDING (059905)

5. Allowed Activities

U.S. Department of Health and Human Services	CFDA: 93.558 Temporary Assistance for Needy Families
Award Number: I.A. 00-002	Award Period: 1/1/98 - indefinite
Pass-Through From Family Independence Agency	Questioned Costs: \$325,721

The Judiciary charged unallowable costs to the TANF federal grant. Based on information received from the Family Independence Agency (FIA), the Judiciary charged the costs of expansion of its Foster Care Review Board (FCRB) activities to a TANF federal grant.

Federal regulations describe the activities that are allowable charges to the TANF grant. The grant funds must be used for eligible needy families with a child and for one of the four purposes of the program. The purposes are: to provide assistance to needy families; to end dependence of needy parents by promoting job preparation, work, and marriage; to prevent and reduce out-of-wedlock pregnancies; and to encourage the formation and maintenance of two-parent families.

FCRBs were created to improve children's foster care throughout the State. The review boards assess the cases of children who are in foster care because of abuse or neglect and make advisory recommendations to the courts, which maintain final decision-making authority. These activities do not meet the criteria for activities allowed by TANF regulations.

The Judiciary received a \$325,721 TANF grant through FIA. The grant agreement between the Judiciary and FIA had two parts. One part was for the continuation of the current FCRB Program that would be funded from federal Title IV-E funds. The other part was for expansion of the current FCRB Program to include all counties within the State, and this would be funded from federal TANF funds. This part of the agreement should not have been funded from federal TANF funds. The Judiciary informed us that it considered the activities allowable because of the grant agreement and assurances that it received from FIA.

This noncompliance with federal regulations could result in disallowed costs of \$325,721 for the entire fiscal year 1997-98 costs of the expansion of the FCRB Program. However, the federal government may approve a waiver and allow these costs if requested.

Also, included in the questioned costs is \$29,915 for one equipment item that the Judiciary did not include in its property records, as required by federal regulations.

RECOMMENDATIONS

We recommend that the Judiciary request FIA to obtain federal approval to charge the costs of expansion of its FCRB activities to a TANF federal grant.

We also recommend that the Judiciary record the excluded equipment item in its property records.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the recommendations and informed us that it has requested FIA to obtain federal assurance that FIA's decision to charge the costs of expansion of FCRB activities to the TANF federal grant is appropriate. The Judiciary also informed us that it has recorded the equipment item in the property records.

FINDING (059906)

6. Grant Payments

U.S. Department of Health and Human Services	CFDA: 93.586 State Court Improvement Program
Award Number: G9601MISCIP	Award Period: 3/8/96 - 3/7/98
	Questioned Costs: \$206,877

The Judiciary did not comply with federal requirements specifying when payments are allowed.

Federal regulations related to cash management require that payments to subrecipients be limited to immediate cash needs.

The Judiciary made fiscal year 1997-98 payments totaling \$206,877 to seven subrecipients and one contractor at the beginning of the contract periods. The contracts were signed within the two weeks prior to the expiration of the federal award period (March 7, 1998). Seven contracts were for services throughout 1998 and one extended through 1999. The Judiciary paid the entire amount of the contracts between March 3 and March 6, 1998. Because the payments were made at the end of the federal award period, the subrecipients and contractor were not able to expend the funds before the award period had expired.

The Judiciary informed us that it made the payments after receiving verbal approval from its federal program contact person.

This noncompliance could result in disallowed costs of \$206,877 for fiscal year 1997-98.

RECOMMENDATION

We recommend that the Judiciary comply with federal requirements specifying when payments are allowed.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the recommendation and informed us that it will obtain approved variances to the federal requirements in writing.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Independent Auditor's Report on
the Financial Schedules

August 6, 1999

The Honorable Elizabeth A. Weaver
Chief Justice of the Supreme Court of Michigan
G. Mennen Williams Building
Lansing, Michigan

Dear Chief Justice Weaver:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the State-funded judicial operations for the fiscal years ended September 30, 1998 and September 30, 1997. These financial schedules are the responsibility of the State-funded judicial operations' management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the State-funded judicial operations are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to

constitute a complete financial presentation of either the State-funded judicial operations or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the State-funded judicial operations for the fiscal years ended September 30, 1998 and September 30, 1997, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 6, 1999 on our consideration of the State-funded judicial operations' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedule of sources and disposition of General Fund authorizations by appropriation unit and the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the State-funded judicial operations' financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

The year 2000 supplementary information on page 38 is not a required part of the basic financial schedules but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

August 6, 1999

The Honorable Elizabeth A. Weaver
Chief Justice of the Supreme Court of Michigan
G. Mennen Williams Building
Lansing, Michigan

Dear Chief Justice Weaver:

We have audited the General Fund financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated August 6, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State-funded judicial operations' financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State-funded judicial operations' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State-funded judicial operations' management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

August 6, 1999

The Honorable Elizabeth A. Weaver
Chief Justice of the Supreme Court of Michigan
G. Mennen Williams Building
Lansing, Michigan

Dear Chief Justice Weaver:

Compliance

We have audited the compliance of the State-funded judicial operations with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997. The State-funded judicial operations' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the State-funded judicial operations' management. Our responsibility is to express an opinion on the State-funded judicial operations' compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State-funded judicial operations' compliance with those requirements and performing such other procedures as we considered necessary

in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State-funded judicial operations' compliance with those requirements.

As described in Findings 4 and 5 in the accompanying schedule of findings and questioned costs, the State-funded judicial operations did not comply with requirements regarding activities allowed or unallowed and allowable costs/cost principles that are applicable to Temporary Assistance for Needy Families. Also, as described in Findings 4 and 6 in the accompanying schedule of findings and questioned costs, the State-funded judicial operations did not comply with requirements regarding allowable costs/cost principles and period of availability of federal funds that are applicable to the State Court Improvement Program. Compliance with such requirements is necessary, in our opinion, for the State-funded judicial operations to comply with the requirements applicable to these programs.

In our opinion, because of the effects of the noncompliance described in the previous paragraph, the State-funded judicial operations did not comply in all material respects, with the requirements referred to in the third previous paragraph that are applicable to Temporary Assistance to Needy Families and the State Court Improvement Program. Also, in our opinion, the State-funded judicial operations complied, in all material respects, with the requirements referred to in the third previous paragraph that are applicable to each of the other major federal programs for the fiscal years ended September 30, 1998 and September 30, 1997.

Internal Control Over Compliance

The management of the State-funded judicial operations is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State-funded judicial operations' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State-funded judicial operations' management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish C.P.A.
Auditor General

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30

	<u>1998</u>	<u>1997</u>
REVENUE		
Court-generated revenue:		
State Court Fund	\$ 6,113,619	\$ 2,836,588
Court Equity Fund	34,967,912	31,075,291
Court Fee Fund	5,588,956	3,760,713
Other court-generated revenue	1,514,700	1,068,379
Federal revenue	1,432,120	1,387,854
From services	1,804,357	1,650,728
From licenses and permits	1,901,278	1,791,470
Miscellaneous	<u>2,687,271</u>	<u>3,607,806</u>
Total Revenue	\$ 56,010,213	\$ 47,178,829
OPERATING TRANSFERS		
Total operating transfers	<u>0</u>	<u>0</u>
Total Revenue and Operating Transfers	<u><u>\$ 56,010,213</u></u>	<u><u>\$ 47,178,829</u></u>

The accompanying notes are an integral part of the financial schedules.

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>1998</u>	<u>1997</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations (Note 2a)	\$ 150,954,900	\$ 149,385,000
Budgetary transfers in (out)	(279,900)	(279,900)
Balances carried forward (Note 2b)	14,741,528	11,689,273
Restricted financing sources (Note 2c)	<u>55,882,494</u>	<u>45,544,108</u>
Total	<u>\$ 221,299,022</u>	<u>\$ 206,338,481</u>
DISPOSITION OF AUTHORIZATIONS		
Expenditures and operating transfers out	<u>\$ 204,599,850</u>	<u>\$ 191,187,830</u>
Balances carried forward:		
Multi-year projects	\$ 8,798,269	\$ 5,379,209
Encumbrances	2,448,220	2,695,943
Restricted revenue - authorized		1,203,896
Restricted revenue - not authorized	<u>5,105,040</u>	<u>5,483,379</u>
Total balances carried forward	<u>\$ 16,351,529</u>	<u>\$ 14,762,427</u>
Balances lapsed	<u>\$ 347,643</u>	<u>\$ 388,224</u>
Total	<u>\$ 221,299,022</u>	<u>\$ 206,338,481</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the State-funded judicial operations for the fiscal years ended September 30, 1998 and September 30, 1997. The financial transactions of the State-funded judicial operations are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The footnotes accompanying these financial schedules relate directly to the State-funded judicial operations. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for government funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the State-funded judicial operations or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 Schedule of Sources and Disposition of Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance State-funded judicial operations' programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.

REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Issues

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, entitled *Disclosures about Year 2000 Issues*. The provisions of the GASB Technical Bulletin, effective for financial schedules on which the auditor's report is dated after October 31, 1998, require the State-funded judicial operations to make disclosures in the notes to the financial schedules about the operations' readiness in addressing year 2000 issues for computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial schedules. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. To address the year 2000 issues, the State established the Year 2000 Project Office within the Department of Management and Budget. The Year 2000 Project Office's mission is to lead, support, and facilitate achievement of year 2000 compliance throughout the State's executive branch to ensure uninterrupted service to Michigan's citizens. The Year 2000 Project Office is monitoring year 2000 compliance efforts at the various agencies and is providing assistance and assigning resources to accelerate compliance for all mission critical systems and equipment.

Disclosures regarding the Statewide year 2000 remediation efforts are available in the *State of Michigan Comprehensive Annual Financial Report* for the fiscal year ended September 30, 1998.

An executive directive, issued in February 1998, directed all executive branch agencies to make the year 2000 issue the number one priority. As a result, the State developed a comprehensive risk management program that identified risks faced by the State concerning year 2000 operability.

The following stages have been identified as necessary to implement a year 2000 compliant system:

- (1) Awareness stage - encompasses establishing a budget and project plan for dealing with the year 2000 issue.
- (2) Assessment stage - when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
- (3) Remediation stage - when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.
- (4) Validation/Testing stage - when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

The State-funded judicial operations identified 21 computer applications that are critical to conducting operations and that need to be year 2000 compliant. The State-funded judicial operations have also received written assurance for those critical applications being evaluated by outside vendors. The State-funded judicial operations are also responsible for assessing the status of computer equipment and replacing or upgrading the equipment as needed. The State-funded judicial operations expect to complete this assessment on or before October 1, 1999. These assessments made by the State-funded judicial operations do not include the systems used by the local courts. The local courts are responsible for ensuring compliance for their own systems.

The State-funded judicial operations' year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operations, including case

management, internal docketing, and timely payment of obligations. As of September 30, 1998, the State-funded judicial operations had validated and tested 49% of the 21 mission critical computer applications. The remaining 51% of the critical applications were in other stages of completion.

The Legislature appropriated \$55.6 million to the State Project Office to provide assistance to agencies in obtaining external resources to address year 2000 issues. As of September 30, 1998, the State-funded judicial operations had expended \$147,604 of the Statewide appropriation. In addition, the State-funded judicial operations have expended \$746,083 of their own appropriations toward the year 2000 remediation efforts. There were no significant commitments (contracts) outstanding with vendors on September 30, 1998.

Management believes that the State-funded judicial operations have the correct plan in place and that the State-funded judicial operations will be able to process date and/or date-related information correctly prior to, during, and after January 1, 2000. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that the State-funded judicial operations are or will be year 2000 ready, that the State-funded judicial operations' remediation efforts will be successful in whole or in part, or that parties with whom the State-funded judicial operations do business will be year 2000 ready.

SUPPLEMENTAL FINANCIAL SCHEDULES

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1998

Appropriation Unit	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources
<u>SUPREME COURT</u>				
Supreme Court Administration:				
General purpose	\$ 13,638,400	\$ (307,694)	\$	\$
IDG from MSP - Michigan Justice Training Fund				158,986
Law examination fees				315,845
Miscellaneous restricted				55,000
Total Supreme Court Administration	<u>\$ 13,638,400</u>	<u>\$ (307,694)</u>	<u>\$ 0</u>	<u>\$ 529,831</u>
State Court Administrative Office:				
General purpose	\$ 5,604,800	\$ (22,705)	\$	\$
Federal highway safety planning revenue				143,569
State Court Fund				304,279
IDG from MSP - Criminal Justice Improvement				171,064
IDG from FIA - Title IV-D Child Support Program				222,732
HHS - Court Improvement Project				386,125
Miscellaneous restricted				106,000
Private - Interest on lawyers' trust accounts				170,635
Total State Court Administrative Office	<u>\$ 5,604,800</u>	<u>\$ (22,705)</u>	<u>\$ 0</u>	<u>\$ 1,504,404</u>
Judicial Information Systems:				
General purpose	\$ 2,719,300	\$ 22,705	\$	\$
User fees				1,804,357
Total Judicial Information Systems	<u>\$ 2,719,300</u>	<u>\$ 22,705</u>	<u>\$ 0</u>	<u>\$ 1,804,357</u>
State Court Fund:	<u>\$</u>	<u>\$</u>	<u>\$ 1,189,097</u>	<u>\$ (1,189,097)</u>
Total State Court Fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,189,097</u>	<u>\$ (1,189,097)</u>
Foster Care Review Board:				
General purpose	\$ 382,200	\$	\$	\$
IDG from FIA - Temporary Assistance for Needy Families				325,721
Total Foster Care Review Board	<u>\$ 382,200</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 325,721</u>
Community Dispute Resolution:				
Community dispute resolution fees	\$	\$	\$ 1,895,835	\$ 1,324,001
USDA - Agriculture Mediation Grant				122,909
Federal - Special Education Grant				60,000
Total Community Dispute Resolution	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,895,835</u>	<u>\$ 1,506,910</u>
Total Supreme Court	<u>\$ 22,344,700</u>	<u>\$ (307,694)</u>	<u>\$ 3,084,932</u>	<u>\$ 4,482,126</u>
<u>COURT OF APPEALS</u>				
Court of Appeals operations	\$ 15,954,100	\$	\$	\$
Delay reduction - State Court Fund	1,500,000			
Court filing fees				1,514,700
Miscellaneous revenue				24,862
Total Court of Appeals	<u>\$ 17,454,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,539,562</u>
<u>JUDICIAL AGENCIES</u>				
Judicial Tenure Commission	\$ 890,300	\$ 15,361	\$	\$
Grant to Legislative Council	279,900	(279,900)		
Total Judicial Agencies	<u>\$ 1,170,200</u>	<u>\$ (264,539)</u>	<u>\$ 0</u>	<u>\$ 0</u>

This schedule continued on next page.

<u>Expenditures and Operating Transfers Out</u>	<u>Multi-Year Projects</u>	<u>Encumbrances</u>	<u>Restricted Revenue - Authorized</u>	<u>Restricted Revenue - Not Authorized</u>	<u>Balances Lapsed</u>
\$ 13,164,376	\$	\$ 143,962	\$	\$	\$ 22,368
158,986					
302,640				13,205	
55,000					
<u>\$ 13,681,003</u>	<u>\$ 0</u>	<u>\$ 143,962</u>	<u>\$ 0</u>	<u>\$ 13,205</u>	<u>\$ 22,368</u>
\$ 4,987,669	\$	\$ 555,390	\$	\$	\$ 39,036
143,569					
304,279					
171,064					
222,732					
386,125					
106,000					
170,634					
<u>\$ 6,492,071</u>	<u>\$ 0</u>	<u>\$ 555,390</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,036</u>
\$ 1,720,148	\$ 190,000	\$ 831,857	\$	\$	\$
1,804,357					
<u>\$ 3,524,505</u>	<u>\$ 190,000</u>	<u>\$ 831,857</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$	\$	\$	\$
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 313,193	\$	\$	\$	\$	\$ 69,007
325,721					
<u>\$ 638,914</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 69,007</u>
\$ 1,413,128	\$	\$	\$	\$ 1,806,709	\$
122,909					
60,000					
<u>\$ 1,596,036</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,806,709</u>	<u>\$ 0</u>
<u>\$ 25,932,529</u>	<u>\$ 190,000</u>	<u>\$ 1,531,209</u>	<u>\$ 0</u>	<u>\$ 1,819,914</u>	<u>\$ 130,411</u>
\$ 15,178,447	\$ 292,300	\$ 338,361	\$	\$	\$ 144,992
1,500,000					
1,514,700					
24,862					
<u>\$ 18,218,008</u>	<u>\$ 292,300</u>	<u>\$ 338,361</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 144,992</u>
\$ 857,310	\$	\$ 48,351	\$	\$	\$
<u>\$ 857,310</u>	<u>\$ 0</u>	<u>\$ 48,351</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1998
Continued

Appropriation Unit	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources
<u>INDIGENT DEFENSE - CRIMINAL</u>				
Appellate Public Defender Program:				
General purpose	\$ 4,695,700	\$ 52,808	\$	\$
Private grants				27,484
IDG from MSP - Michigan Justice Training Fund				132,620
Miscellaneous revenue				65,000
Appellate Assigned Counsel Administration:				
General purpose	718,500	(10,475)		
IDG from MSP - Michigan Justice Training Fund				38,543
Miscellaneous revenue				1,044
Total Indigent Defense - Criminal	<u>\$ 5,414,200</u>	<u>\$ 42,333</u>	<u>\$ 0</u>	<u>\$ 264,690</u>
<u>INDIGENT DEFENSE - CIVIL</u>				
Indigent Defense - State Court Fund	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 6,998,436</u>
Total Indigent Defense - Civil	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,998,436</u>
<u>JUSTICES' AND JUDGES' COMPENSATION</u>				
Supreme Court justices' salaries	\$ 868,100	\$ 4,738	\$	\$
Court of Appeals judges' salaries	3,208,600	8,659		
District Court judges' State base salaries	15,283,100	9,854		
District Court judicial salary standardization	11,842,500	(23,251)		
Probate Court judges' State base salaries	5,112,400	(154,316)		
Probate Court judges' salaries - Court Fee Fund				965,800
Probate Court judicial salary standardization	3,644,300	25,691		
Probate Court salary standardization - Court Fee Fund				688,500
Circuit Court judges' State base salaries	11,536,500	419,614		
Circuit Court judges' salaries - Court Fee Fund				2,179,400
Circuit Court judicial salary standardization	7,761,700	(9,773)		
Circuit Court salary standardization - Court Fee Fund				1,466,300
Grant to OASI Contribution Fund	<u>3,518,100</u>	<u>(31,216)</u>		
Total Justices' and Judges' Compensation	<u>\$ 62,775,300</u>	<u>\$ 250,000</u>	<u>\$ 0</u>	<u>\$ 5,300,000</u>
<u>TRIAL COURT OPERATIONS</u>				
Court Equity Fund reimbursements - General purpose	\$ 25,796,400	\$	\$	\$
Court Equity Fund - Revenue funded			1,710,737	34,967,912
Court Equity Fund - Court Fee Fund			1,560,713	288,956
Hold Harmless Fund reimbursements - General purpose	<u>16,000,000</u>			
Total Trial Court Operations	<u>\$ 41,796,400</u>	<u>\$ 0</u>	<u>\$ 3,271,450</u>	<u>\$ 35,256,869</u>
<u>GRANTS/REIMBURSEMENTS</u>				
Drunk Driving and Drug Caseflow Program:				
Drunk Driving Fund	\$	\$	\$ 309,994	\$ 1,934,492
Drug Fund				106,320
Total Drunk Driving and Drug Caseflow Program	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 309,994</u>	<u>\$ 2,040,812</u>
Total Judiciary - Current Year	<u>\$ 150,954,900</u>	<u>\$ (279,900)</u>	<u>\$ 6,666,376</u>	<u>\$ 55,882,494</u>
Carry-forwards from appropriation year 1994-95	\$	\$	\$ 831,941	\$
Carry-forwards from appropriation year 1995-96			119,321	
Carry-forwards from appropriation year 1996-97			7,123,890	
Total Judiciary	<u>\$ 150,954,900</u>	<u>\$ (279,900)</u>	<u>\$ 14,741,528</u>	<u>\$ 55,882,494</u>

<u>Expenditures and Operating Transfers Out</u>	<u>Multi-Year Projects</u>	<u>Encumbrances</u>	<u>Restricted Revenue - Authorized</u>	<u>Restricted Revenue - Not Authorized</u>	<u>Balances Lapsed</u>
\$ 4,748,508	\$	\$	\$	\$	\$
27,484					
132,620					
65,000					
650,275		57,750			
38,543					
1,044					
<u>\$ 5,663,473</u>	<u>\$ 0</u>	<u>\$ 57,750</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 6,998,436</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 6,998,436</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 872,838	\$	\$	\$	\$	\$
3,217,259					
15,283,359					9,595
11,819,249					
4,954,584					3,500
965,800					
3,669,991					
688,500					
11,900,887					55,228
2,179,400					
7,751,927					
1,466,300					
3,486,884					
<u>\$ 68,256,978</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 68,323</u>
\$ 25,796,400	\$	\$	\$	\$	\$
35,694,000				984,650	
				1,849,669	
<u>7,684,032</u>	<u>8,315,969</u>				
<u>\$ 69,174,432</u>	<u>\$ 8,315,969</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,834,319</u>	<u>\$ 0</u>
\$ 1,800,000	\$	\$	\$	\$ 444,487	\$
100,000				6,320	
<u>\$ 1,900,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 450,807</u>	<u>\$ 0</u>
<u>\$ 197,001,165</u>	<u>\$ 8,798,269</u>	<u>\$ 1,975,671</u>	<u>\$ 0</u>	<u>\$ 5,105,040</u>	<u>\$ 343,726</u>
\$ 640,031	\$	\$ 191,910	\$	\$	\$
52,780		66,540			
6,905,874		214,099			3,917
<u>\$ 204,599,850</u>	<u>\$ 8,798,269</u>	<u>\$ 2,448,220</u>	<u>\$ 0</u>	<u>\$ 5,105,040</u>	<u>\$ 347,643</u>

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1997

<u>Appropriation Unit</u>	<u>General Purpose Appropriations</u>	<u>Budgetary Transfers In (Out)</u>	<u>Balances Carried Forward</u>	<u>Restricted Financing Sources</u>
<u>SUPREME COURT</u>				
Supreme Court Administration:				
General purpose	\$ 12,897,100	\$ 58,805	\$	\$
State Court Fund				40,300
IDG from MSP - Michigan Justice Training Fund				151,567
Law examination fees				335,592
Miscellaneous restricted				55,086
Private - Kellogg Foundation Grant				93,617
Total Supreme Court Administration	<u>\$ 12,897,100</u>	<u>\$ 58,805</u>	<u>\$ 0</u>	<u>\$ 676,162</u>
State Court Administrative Office:				
General purpose	\$ 5,324,400	\$ (300,067)	\$	\$
Federal highway safety planning revenue				86,141
State Court Fund				229,000
IDG from MSP - Michigan Justice Training Fund				7,691
IDG from FIA - Title IV-D Child Support Program				145,508
IDG from FIA - Children's Docket Pilot Project				14,208
HHS - Court Improvement Project				75,644
Federal contingency funds				20,170
Miscellaneous restricted				106,540
Private - State Justice Institute				28,285
Private - Interest on lawyers' trust accounts				151,617
Total State Court Administrative Office	<u>\$ 5,324,400</u>	<u>\$ (300,067)</u>	<u>\$ 0</u>	<u>\$ 864,804</u>
Judicial Information Systems:				
General purpose	\$ 2,350,200	\$ 55,455	\$	\$
User fees				1,650,778
Total Judicial Information Systems	<u>\$ 2,350,200</u>	<u>\$ 55,455</u>	<u>\$ 0</u>	<u>\$ 1,650,778</u>
State Court Fund:	<u>\$</u>	<u>\$</u>	<u>\$ 3,886,872</u>	<u>\$ (2,697,775)</u>
Total State Court Fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,886,872</u>	<u>\$ (2,697,775)</u>
Foster Care Review Board:				
General purpose	\$ 372,300	\$	\$	\$
IDG from FIA - Title IV-E Foster Care Review Program				154,625
Total Foster Care Review Board	<u>\$ 372,300</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 154,625</u>
Community Dispute Resolution:				
Community dispute resolution fees	\$	\$	\$ 2,126,687	\$ 1,261,668
USDA - Agriculture Mediation Grant				158,244
Total Community Dispute Resolution	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,126,687</u>	<u>\$ 1,419,912</u>
Total Supreme Court	<u>\$ 20,944,000</u>	<u>\$ (185,807)</u>	<u>\$ 6,013,559</u>	<u>\$ 2,068,506</u>
<u>COURT OF APPEALS</u>				
Court of Appeals operations	\$ 15,676,100	\$ 186	\$	\$
Delay reduction - State Court Fund				2,000,000
Court filing fees				1,089,700
Miscellaneous revenue				75,000
Total Court of Appeals	<u>\$ 15,676,100</u>	<u>\$ 186</u>	<u>\$ 0</u>	<u>\$ 3,164,700</u>

This schedule continued on next page.

<u>Expenditures and Operating Transfers Out</u>	<u>Multi-Year Projects</u>	<u>Encumbrances</u>	<u>Restricted Revenue - Authorized</u>	<u>Restricted Revenue - Not Authorized</u>	<u>Balances Lapsed</u>
\$ 12,786,228	\$	\$ 139,716	\$	\$	\$ 29,962
40,300					
151,567					
335,592					
55,086					
93,617					
<u>\$ 13,462,390</u>	<u>\$ 0</u>	<u>\$ 139,716</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,962</u>
\$ 4,793,054	\$	\$ 227,199	\$	\$	\$ 4,080
86,141					
229,000					
7,691					
145,508					
14,208					
75,644					
20,170					
106,540					
28,285					
151,617					
<u>\$ 5,657,858</u>	<u>\$ 0</u>	<u>\$ 227,199</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,080</u>
\$ 1,488,456	\$ 100,000	\$ 817,200	\$	\$	\$
1,650,778					
<u>\$ 3,139,234</u>	<u>\$ 100,000</u>	<u>\$ 817,200</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$	\$ 1,189,096	\$	\$
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>1,189,096</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 372,300	\$	\$	\$	\$	\$
154,625					
<u>\$ 526,925</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,505,983	\$	\$	\$	\$ 1,882,372	\$
158,244					
<u>\$ 1,664,227</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,882,372</u>	<u>\$ 0</u>
<u>\$ 24,450,634</u>	<u>\$ 100,000</u>	<u>\$ 1,184,115</u>	<u>\$ 1,189,096</u>	<u>\$ 1,882,372</u>	<u>\$ 34,042</u>
\$ 15,182,800	\$	\$ 493,486	\$	\$	\$
2,000,000					
1,089,700					
75,000					
<u>\$ 18,347,500</u>	<u>\$ 0</u>	<u>\$ 493,486</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1997
Continued

Appropriation Unit	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources
JUDICIAL AGENCIES				
Judicial Tenure Commission	\$ 874,200	\$ (6,210)	\$	\$
Grant to Legislative Council	<u>279,900</u>	<u>(279,900)</u>	<u></u>	<u></u>
Total Judicial Agencies	<u>\$ 1,154,100</u>	<u>\$ (286,110)</u>	<u>\$ 0</u>	<u>\$ 0</u>
INDIGENT DEFENSE - CRIMINAL				
Appellate Public Defender Program:				
General purpose	\$ 4,599,500	\$	\$	\$
Private grants				89,901
IDG from MSP - Michigan Justice Training Fund				161,777
Miscellaneous revenue				67,402
Appellate Assigned Counsel Administration:				
General purpose	587,100	(175)		
IDG from MSP - Michigan Justice Training Fund				25,316
Miscellaneous revenue				7,599
Total Indigent Defense - Criminal	<u>\$ 5,186,600</u>	<u>\$ (175)</u>	<u>\$ 0</u>	<u>\$ 351,995</u>
INDIGENT DEFENSE - CIVIL				
Indigent Defense - State Court Fund	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3,267,000</u>
Total Indigent Defense - Civil	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,267,000</u>
JUSTICES' AND JUDGES' COMPENSATION				
Supreme Court justices' salaries	\$ 831,300	\$ 10,544	\$	\$
Court of Appeals judges' salaries	3,192,200	7,454		
District Court judges' State base salaries	15,224,800	(26,896)		
District Court judicial salary standardization	11,581,900	(59,087)		
Probate Court judges' State base salaries	5,491,200	(11,692)		
Probate Court judicial salary standardization	4,289,500	(19,810)		
Recorder's Court judges' State base salaries	1,894,100	(21,598)		
Recorder's Court judicial salary standardization	1,274,300	(18,411)		
Circuit Court judges' State base salaries	11,821,800	221,212		
Circuit Court judiciary salary standardization	7,793,300	(10,780)		
Judges' Retirement System contribution	1,311,800			
Grant to OASI Contribution Fund	<u>3,281,300</u>	<u>121,070</u>	<u></u>	<u></u>
Total Justices' and Judges' Compensation	<u>\$ 67,987,500</u>	<u>\$ 192,006</u>	<u>\$ 0</u>	<u>\$ 0</u>
TRIAL COURT OPERATIONS				
Court Equity Fund reimbursements - General purpose	\$ 18,436,700	\$	\$	\$
Court Equity Fund - Revenue funded				31,075,291
Court Equity Fund - Court Fee Fund				3,760,713
Hold Harmless Fund reimbursements - General purpose	<u>20,000,000</u>	<u></u>	<u></u>	<u></u>
Total Trial Court Operations	<u>\$ 38,436,700</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 34,836,004</u>
GRANTS/REIMBURSEMENTS				
Drunk Driving Caseflow Program:				
Drunk Driving Fund	<u>\$</u>	<u>\$</u>	<u>\$ 230,833</u>	<u>\$ 1,879,161</u>
Total Drunk Driving Caseflow Program	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 230,833</u>	<u>\$ 1,879,161</u>
Total Judiciary - Current Year	<u>\$ 149,385,000</u>	<u>\$ (279,900)</u>	<u>\$ 6,244,392</u>	<u>\$ 45,567,366</u>
Carry-forwards from appropriation year 1994-95	\$	\$	\$ 4,589,760	\$
Carry-forwards from appropriation year 1995-96			855,121	(23,258)
Total Judiciary	<u>\$ 149,385,000</u>	<u>\$ (279,900)</u>	<u>\$ 11,689,273</u>	<u>\$ 45,544,108</u>

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Certain General Fund Assets and Liabilities
As of September 30

	<u>1998</u>	<u>1997</u>
ASSETS		
Current Assets:		
Due from federal agencies	\$ 454,846	\$ 235,248
Due from local units	\$ 1,068,491	\$ 1,039,512
Other current assets	\$ 4,892,115	\$ 3,569,616
 LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 20,208,249	\$ 22,928,518
Due to other funds	\$ 27,007	\$ 27,007
Deferred revenue	\$ 112,010	\$ 112,010
Unearned receipts payable	\$ 799	\$ 799
Amounts held for others	\$ 581,238	\$ 581,238

This schedule is not a balance sheet and is not intended to report financial condition. The schedule presents certain assets and liabilities that result from the operations of, and are the responsibility of, the State-funded judicial operations. The schedule excludes other assets and liabilities, such as equity in Common Cash, cash in transit, and warrants outstanding, which are accounted for centrally by the State.

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STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Expenditures of Federal Awards *
For the Period October 1, 1996 through September 30, 1998

			For the Fiscal Year Ended September 30, 1997		
Federal Agency/Program	CFDA** Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>					
Direct Program					
State Mediation Grant	10.435		\$ 15,574	\$ 142,670	\$ 158,244
Total U.S. Department of Agriculture			\$ 15,574	\$ 142,670	\$ 158,244
<u>U.S. Department of Justice</u>					
Pass-Through Programs					
Michigan Department of State Police					
National Criminal History Improvement Program	16.554	96-272-27430	\$	\$	\$ 0
Family Independence Agency					
Violence Against Women Formula Grant	16.588	95-WF-NX-0026	93,617		93,617
Total U.S. Department of Justice			\$ 93,617	\$ 0	\$ 93,617
<u>U.S. Department of Transportation</u>					
Pass-Through Program					
Michigan Department of State Police					
State and Community Highway Safety Program	20.600	J7-97-07	\$ 86,141	\$	\$ 86,141
State and Community Highway Safety Program	20.600	J7-98-02			0
State and Community Highway Safety Program	20.600	J7-98-29			0
Total U.S. Department of Transportation			\$ 86,141	\$ 0	\$ 86,141
<u>U.S. Department of Education</u>					
Pass-Through Program					
Department of Education					
Special Education Grant to States	84.027	0497-2D33	\$ 20,170	\$	\$ 20,170
Special Education Grant to States	84.027	0498-2D33			0
Special Education Grant to States	84.027	0499-2D33			0
Total U.S. Department of Education			\$ 20,170	\$ 0	\$ 20,170
<u>U.S. Department of Health and Human Services</u>					
Direct Program					
State Court Improvement Program	93.586		\$ 64,270	\$	\$ 64,270
State Court Improvement Program	93.586		11,375		11,375
State Court Improvement Program	93.586				0
Total Direct Program			\$ 75,645	\$ 0	\$ 75,645
Pass-Through Programs					
Family Independence Agency					
Temporary Assistance for Needy Families	93.558	I.A. 00-002	\$	\$	\$ 0
Child Support Enforcement	93.563	I.A. 85-021	145,508		145,508
Children's Justice Grant to States	93.643	Admin. 95-8101	14,208		14,208
Total Pass-Through Programs			\$ 159,716	\$ 0	\$ 159,716
Total U.S. Department of Health and Human Services			\$ 235,361	\$ 0	\$ 235,361
Total Expenditures of Federal Awards			\$ 450,863	\$ 142,670	\$ 593,533

* Basis of Presentation: This schedule includes the federal grant activity of State-funded judicial operations and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

** CFDA is defined as *Catalog of Federal Domestic Assistance*.

<u>For the Fiscal Year Ended September 30, 1998</u>			
<u>Directly Expended</u>	<u>Distributed to Subrecipient</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
<u>\$ 31,272</u>	<u>\$ 91,636</u>	<u>\$ 122,908</u>	<u>\$ 281,152</u>
<u>\$ 31,272</u>	<u>\$ 91,636</u>	<u>\$ 122,908</u>	<u>\$ 281,152</u>
\$ 146,853	\$	\$ 146,853	\$ 146,853
		0	93,617
<u>\$ 146,853</u>	<u>\$ 0</u>	<u>\$ 146,853</u>	<u>\$ 240,470</u>
\$ 28,714	\$	\$ 28,714	\$ 114,855
114,855		114,855	114,855
25,289		25,289	25,289
<u>\$ 168,858</u>	<u>\$ 0</u>	<u>\$ 168,858</u>	<u>\$ 254,999</u>
\$	\$	\$ 0	\$ 20,170
45,428		45,428	45,428
14,113		14,113	14,113
<u>\$ 59,541</u>	<u>\$ 0</u>	<u>\$ 59,541</u>	<u>\$ 79,711</u>
\$	\$	\$ 0	\$ 64,270
77,586	188,544	266,130	277,505
119,995		119,995	119,995
<u>\$ 197,581</u>	<u>\$ 188,544</u>	<u>\$ 386,125</u>	<u>\$ 461,770</u>
\$ 325,721	\$	\$ 325,721	\$ 325,721
222,732		222,732	368,240
		0	14,208
<u>\$ 548,453</u>	<u>\$ 0</u>	<u>\$ 548,453</u>	<u>\$ 708,169</u>
<u>\$ 746,034</u>	<u>\$ 188,544</u>	<u>\$ 934,578</u>	<u>\$ 1,169,939</u>
<u>\$ 1,152,558</u>	<u>\$ 280,180</u>	<u>\$ 1,432,738</u>	<u>\$ 2,026,271</u>

OTHER REQUIRED SCHEDULES

STATE-FUNDED JUDICIAL OPERATIONS
Summary Schedule of Prior Audit Findings
As of August 6, 1999

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 2
Finding: The Judiciary made budgetary transfers of unavailable authorizations and spent restricted revenue collected in excess of appropriations by line item.
Comments: The Judiciary now has appropriations act language to allow budgetary transfers.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 6
Finding: The Judiciary did not properly liquidate fiscal year 1994-95 encumbrances.
Comments: The Judiciary worked with the Department of Management and Budget to resolve the problems.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 7
Finding: The Judiciary did not ensure that drunk driving reinstatement fees were properly classified in the accounting records.
Comments: The Judiciary discovered the error after the accounting records were closed and adjusting entries could not be made.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 1
Finding: The Judiciary did not maintain sufficient internal control over federal grant accounting and reporting.

Comments: The Judiciary has endeavored to ensure that all federal grants are properly billed, that all due dates are met, and that federal revenue is properly recorded.

Audit Findings Not Within the Current Audit Scope*:

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 3

Finding: The 3rd Circuit Court - Friend of the Court did not comply with federal grant requirements for its Child Support Enforcement (Title IV-D) program.

Comments: The 3rd Circuit Court - Friend of the Court indicated that corrective action will be coordinated with the new Friend of the Court.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 4

Finding: The 3rd Circuit Court did not properly allocate Friend of the Court expenditures to federal programs.

Comments: The 3rd Circuit Court - Friend of the Court disagreed with the finding. The procedures it used were developed with the Office of Child Support, Family Independence Agency.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 5

Finding: The 3rd Circuit Court - Friend of the Court did not bill the federal government for all allowable expenditures under the Title IV-D grant.

Comments: The 3rd Circuit Court - Friend of the Court has adjusted its billings for fiscal year 1996-97.

*** Note:** The 3rd Circuit Court is no longer part of the State-funded judicial operations audit entity.

STATE-FUNDED JUDICIAL OPERATIONS

Corrective Action Plan
As of February 24, 2000

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 059901
Finding Title: Liabilities
Management Views: We agree with the recommendation and have complied.
Corrective Action: The necessary accounting entries have been made to correct the overstatement of liabilities.
Anticipated Completion Date: September 30, 1999
Responsible Individual: E. Ronald Stadnika, Finance Director

Finding Number: 059902
Finding Title: Indirect Costs
Management Views: We agree with the recommendation and will comply.
Corrective Action: Our proposal to complete an indirect cost plan has been included in the State's contract for developing indirect cost plans.
Anticipated Completion Date: October 1, 2000
Responsible Individual: E. Ronald Stadnika, Finance Director

Finding Number: 059903
Finding Title: Cash Management
Management Views: We agree with the recommendation and will comply.
Corrective Action: We will continue efforts to obtain timely reimbursement.
Anticipated Completion Date: October 1, 1999
Responsible Individual: E. Ronald Stadnika, Finance Director

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 059904
Finding Title: Payroll Certifications
Management Views: We agree with the recommendation and have complied.
Corrective Action: We have prepared certifications for the time period in question. We are now preparing certifications on a six-month basis.
Anticipated Completion Date: November 17, 1999
Responsible Individual: E. Ronald Stadnika, Finance Director

Finding Number: 059905
Finding Title: Allowed Activities
Management Views: We agree with the recommendations and have complied.
Corrective Action: We have requested the Family Independence Agency to obtain federal assurance that its decision to charge the costs of expansion of Foster Care Review Board activities to the Temporary Assistance for Needy Families federal grant is appropriate. Also, we have recorded the equipment item in the property records.
Anticipated Completion Date: February 17, 2000
Responsible Individual: E. Ronald Stadnika, Finance Director

Finding Number: 059906
Finding Title: Grant Payments
Management Views: We agree with the recommendation and will comply.
Corrective Action: We will obtain approved variances to the federal requirements in writing.
Anticipated Completion Date: February 24, 2000
Responsible Individual: E. Ronald Stadnika, Finance Director

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
FCRB	Foster Care Review Board.
FIA	Family Independence Agency.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
HHS	U.S. Department of Health and Human Services.
IDG	interdepartmental grant.
indirect costs	Those costs that are incurred for a common or joint purpose that benefit more than one cost objective and are not readily assignable to the cost objectives specifically benefited.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, Single Audits

of the State of Michigan are conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MSP	Michigan Department of State Police.
OASI	Old Age Survivor's Insurance.
OMB	U.S. Office of Management and Budget.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the Judiciary's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
SCIP	State Court Improvement Program.

Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
TANF	Temporary Assistance for Needy Families.
USDA	U.S. Department of Agriculture.